

Message Text

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SUBJECT: EDRC ANNUAL REVIEW OF THE NETHERLANDS

REF OECD PARIS 13071

1. ON WHOLE, WE AGREE WITH THRUST OF SECRETARIAT CONCLUSIONS AND CONCERNS AS SUMMARIZED REFTEL AND REFLECTED IN "MAIN ISSUES" PAPER. CHIEF CONTRADICTIONS ARISE FROM (1) PERFECTLY LEGITIMATE ATTEMPT BY CENTER/LEFT GON TO MAKE PROGRESS ON SOCIO-POLITICAL GOALS, PARTICULARLY INCOME LEVELLING AND GREATER FOREIGN AID, AND AT SAME TIME TREAD TIGHTROPE BETWEEN INFLATION RESTRAINT AND JOB CREATION, AND (2) FACT THAT PACKAGE OF MEASURES TO SECURE THESE OBJECTIVES HAS RESIDUAL AND UNINTENDED EFFECT OF SUSTAINING INFLATIONARY SURPLUS IN BOP.

2. NETHERLANDS GOVERNMENT HAS ADOPTED NARROW BALANCE BETWEEN HIGH INCOME DEMAND RESTRAINT (FOR CONTROL OF INFLATION) AND LOW INCOME DEMAND ENCOURAGEMENT (TO COMBAT UNEMPLOYMENT) WHICH SECRETARIAT'S REVIEW MAY NOT HAVE FULLY RECOGNIZED. BALANCE IS ILLUSTRATED IN 1974 BUDGET, DRAWN UP WITH EYE
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TO INFLATION BUT INCLUDING INCREASES IN VOLUME OF PURCHASES

AND INVESTMENT WHICH MORE THAN OFFSET DECREASES IN 1973. ON DEMAND RESTRAINT SIDE, TAXES AND SOCIAL CHARGES HAVE FOR FIRST TIME RISEN TO MORE THAN 50 PERCENT OF NATIONAL INCOME. HOWEVER, MOST RECENT ACTIONS HAVE BEEN ON DEMAND ENCOURAGEMENT SIDE, NAMELY CONTINUATION OF MINIMUM WAGE INCREASES AND ACCELERATED GENERAL COST OF LIVING WAGE INCREASES, REDUCTION OF TAXES ON LOWER INCOMES, HEAVY OUTLAYS FOR JOB CREATION, AND NEW INVESTMENT TAX INCENTIVE. AS RESULT OF THIS EFFORT UNEMPLOYMENT THIS YEAR IS OFFICIALLY PREDICTED TO BE WELL UNDER 3.5 PERCENT.

3. QUESTION ARISES WHETHER CONTRADICTORY GON POLICIES MAY PROVE SELF CANCELLING. NET EFFECT OF WAGE, PRICE AND TAX POLICIES HAS BEEN REDUCED PROFITS AND SAVINGS. RESULTING DISCOURAGEMENT OF INVESTMENT, TOGETHER WITH TENDENCY TOWARD STRONG INCREASES IN WAGES, HAS EFFECT OF PERTPETUATING AND ENLARGING HARD-CORE UNEMPLOYMENT IN SPITE OF EFFORTS TO REDUCE IT.

4. IN FIELD OF WAGE COSTS, RECENT HISTORY OF TRIPARTITE CENTRAL AGREEMENT IS NOT ENCOURAGING. AGREEMENT FOR 1973 WAS CONCLUDED WITH WAGE AND PRICE INCREASES AT HIGH LEVEL DICTATED BY LABOR DEMANDS. WAGE COST ACTUALLY SURPASSED AGREEMENT BECAUSE OF WAGE DRIFT, ACCORDING TO CENTRAL PLANNING BUREAU. AGREEMENT FOR 1974 FOUNDERED BECAUSE OF LABOR DEMANDS DEEMED UNACCEPTABLE BY EMPLOYERS. ASSUMING CONTINUED INTERNATIONAL INFLATIONARY PRESSURE, ONLY ALTERNATIVE WOULD APPEAR TO BE CONTINUED ADMINISTRATIVE CONTROL OR DEFLATIONARY MONETARY AND FISCAL MEASURES WITH RESULTING UNEMPLOYMENT WHICH COULD APPROACH POLITICALLY UNACCEPTABLE LEVEL.

5. AS STATED TELEPHONICALLY, PRESSURE OF OTHER BUSINESS PRECLUDES SENDING OFFICER TO ASSIST US DELEGATION.
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